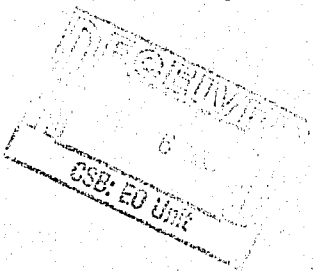


"This ruling is applicable to the taxpayer named herein. It must not be relied on, used, or cited as a precedent by Internal Revenue Service personnel in the disposition of other cases."

NO PROTEST RECEIVED
6 times copies to DLMH

MAY 26 1988

APR 26 1988



Key District: [REDACTED]
Employer Identification Number: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income taxation under section 501(c)(6) of the Internal Revenue Code of 1986 and have concluded that you do not qualify for exemption under that subsection of the Code.

The information submitted indicates that you were incorporated under the [REDACTED] General Not For Profit Corporation Act of 1986 on [REDACTED] to provide assistance and educational services in matters of common interest; to engage in institutional promotion to enhance the public image of the services being rendered by its members and the significance of membership in the corporation; to participate in such public activities as will protect and preserve the values, status, and interests of its members individually and collectively; to coordinate conventions of its members to promote and discuss matters of common interest; to act as a liaison between its members and certain vendors and manufacturers of computer software created for the insurance industry by coordinating and suggesting system enhancements to such vendors and manufacturers; and to perform other helpful acts.

In operation, you represent members in [REDACTED] who are all users of computer software designed for the insurance industry. Despite some indication to the contrary in your application, your later statements indicate that all of the items with which you involve yourself are for use with respect to [REDACTED], and are manufactured by that company and distributed by [REDACTED], or by [REDACTED].

You have stated that only users of [REDACTED] products are likely to accrue benefits by being members. Effectively, you represent only the users of one company's software products.

Section 501(a) of the Code provides, in relevant part, that an organization described in subsection (c) shall be exempt from taxation.

Section 501(c)(6) of the Code provides for the exemption from federal income taxation of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. The activities of the organization must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only enough income to be self-sustaining, is not a business league.

Rev. Rul. 83-164, 1983-2 C. B. 95, provides that an organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption from federal income taxation as a business league under section 501(c)(6) of the Code.

In National Prime Users Group, Inc. v. United States, 60 AFTR 2d 87-5564 (D. Md. 1987), citing National Muffler Dealer's Association, Inc. v. United States, 440 U. S. 472 (1979), held that the organization does not qualify for tax exempt status because it promoted the products of only one manufacturer rather than those of the entire industry. The court determined that the primary objective of the organization is to provide a method for the dissemination of information to and communication among users of Prime computers. The court found this evident from its name, its policy of commercialism, its corporate documents prior to amendment, its restricted membership to Prime users, and its consistent focus of its activities to Prime products and users. The court found that its activities provide a competitive advance to Prime.

As in the National Prime Users case, your name, your policy of commercialism, the wording of the fifth portion of your statement of purposes in your articles of incorporation, and your consistent focus on [REDACTED], users all tend to show that you fit within the prohibited areas described in Rev. Rul. 84-164, *supra* and the National Muffler Dealer's Association case. The fact that these cases dealt with hardware while yours deals with software is not a material distinction. You are still aiding only one manufacturer.

Accordingly, we conclude that you are not described within section 501(c)(6) of the Code. Therefore, you do not qualify for exemption from federal income taxation under that subsection. Thus, you are required to file federal income tax returns.

You have the right to protest this ruling if you believe that it is incorrect. To protest you should submit a statement of your views with a full explanation of your reasoning. This statement, signed by one of your trustees, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your trustees, that person will need to file a proper power

[REDACTED]

of attorney and otherwise qualify under our Conference and Practice Procedures.

If you do not protest this ruling within 30 days, this ruling will become final and copies of it will be forwarded to the District Director, Chicago, Illinois. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following address on the envelope:

[REDACTED]
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

The symbols do not refer to your case but rather to its location. Therefore, it is important that the address appear on the envelope exactly as shown above.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch

cc: [REDACTED]

[REDACTED]